County of Los Angeles
CHIEF EXECUTIVE OFFICE
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

SACHI A. HAMAI
Chief Executive Officer

March 22, 2016

To: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: Sachi A. Hamai
Chief Executive Officer

WASHINGTON, D.C. UPDATE ON H.R. 4725, LEGISLATION WHICH REPEALS THE PREVENTION AND PUBLIC HEALTH FUND AND REDUCES MEDICAID AND CHILDREN'S HEALTH INSURANCE PROGRAM EXPENDITURES

Executive Summary

This memorandum is to inform the Board that, on March 15, 2016, the House Energy and Commerce Committee approved, on a 28 to 19 party-line vote, H.R. 4725, which would repeal the Prevention and Public Health Fund (PPHF) and reduce Medicaid and Children's Health Insurance Program (CHIP) expenditures, such as by lowering the Medicaid provider tax threshold and reducing the enhanced Federal CHIP match rate between March 31, 2016 and September 30, 2019.

The bill's repeal of the PPHF would eliminate an ongoing mandatory Federal revenue source for financing public health, prevention, and wellness programs through which the County receives funding, but its Medicaid and CHIP provisions would not affect the County's Federal revenue. It is highly unlikely that H.R. 4725 would be enacted because Senate Democrats would block its passage, and the President would veto it even if the Senate were to pass it.

Highlights of H.R. 4725

On March 15, 2016, the House Energy and Commerce Committee approved H.R. 4725 (Pitts, R-PA), the "Common Sense Savings Act of 2016," which would eliminate the Prevention and Public Health Fund (PPHF) and reduce Medicaid and Children's Health Insurance Program (CHIP) expenditures. The Congressional Budget Office has not yet released its cost estimate of H.R. 4725, but the Committee indicates that the bill would reduce Federal spending by $30 billion over 10 years. All 10 Democratic amendments, which were aimed at protecting PPHF, Medicaid, and CHIP funding, were rejected or withdrawn before the bill was approved, 28 to 19, on a party-line vote.

The bill's major provisions include the following:

Repeal of the Prevention and Public Health Fund: The bill repeals the PPHF, which was established by the Affordable Care Act (ACA) to finance investments in prevention, wellness, and public health services. The PPHF is not a program, but, instead, is a mandatory spending account which may be used by the Secretary of Health and Human Services or Congressional appropriators to increase funding for new or pre-existing prevention, wellness, and public health programs above the Federal Fiscal Year (FFY) 2008 level. Under current law, the annual PPHF appropriation is $1 billion in FFYs 2016 and 2017, $1.25 billion in FFYs 2018 and 2019, $1.5 billion in FFYs 2020 and 2021, and $2 billion in subsequent years.

Lower Medicaid Provider Tax Threshold: It lowers the acceptable threshold for a Medicaid provider tax which is used to finance part of the non-Federal share of Medicaid costs from a rate of 6 percent of net patient service revenues to 5.5 percent, which was the percentage in effect between January 1, 2008 and September 30, 2011. Lowering the Medicaid provider tax threshold would reduce the maximum amount of Federal matching funds that a state potentially could draw down using a provider tax. However, California is unlikely to be affected because its Medicaid provider tax rate currently is significantly less than 5.5 percent of net patient revenues.

Elimination of the ACA's Enhanced Medicaid Match Rate for Certain Prisoners: It eliminates the ability of states to be reimbursed at the ACA's enhanced Medicaid match rate ("FMAP") for the cost of providing inpatient services to prisoners (inmates) who became eligible for Medicaid due to the ACA's Medicaid expansion and who are admitted to a non-correctional medical facility for at least 24 hours. Under current Centers for Medicare and Medicaid Services guidance, such inpatient care provided to Medicaid-eligible prisoners is reimbursable under Medicaid. In states which implemented the ACA's Medicaid expansion, such as California, most Medicaid-eligible prisoners are likely to be medically indigent adults for whom the FMAP is 100 percent in FFYs 2014 through 2016, 95 percent in FFY 2017, 94 percent in FFY 2018, 93 percent in FFY 2019, and 90 percent in subsequent years. Under the bill, ACA Medicaid expansion states, instead, would be reimbursed at their regular FMAP, which currently is 50 percent for California, for inpatient services provided to Medicaid-eligible medically indigent adult inmates.

Repeal of the ACA's Enhanced Children's Health Insurance Program (CHIP) Match Rate: The bill repeals, effective after March 31, 2016, the provision in the ACA, which increased the enhanced Federal CHIP match rate by up to 23 percentage points, for FFYs 2016 through 2019. If enacted, this change would drop California's Federal CHIP match rate from 88 percent to 65 percent after March 31, 2016.

The repeal of the PPHF would eliminate an ongoing mandatory Federal revenue source for financing public health, prevention, and wellness programs through which the County receives funding, but the bill's Medicaid and CHIP provisions would not affect Federal revenue for the County. However, the bill's provisions to eliminate the ACA's enhanced Medicaid match rate for certain prisoners and enhanced CHIP match rate would increase the State's share of Medicaid and CHIP costs.

Legislative Outlook

The estimated $30 billion Medicaid, CHIP, and PPHF budget cuts in H.R. 4725 are part of the House Republican leadership's effort to placate Republican members of the fiscally conservative House Freedom Caucus whose support will be needed for the House to pass a FFY 2017 budget resolution if Democrats vote against it. The Freedom Caucus opposes the $30 billion increase in overall discretionary spending in FFY 2017, enacted in the Bipartisan Budget Act of 2015, which the Republican and Democratic leadership of both houses support using in drafting FFY 2017 appropriations bills. The House Budget Committee's FFY 2017 budget resolution also includes the $30 billion higher overall discretionary spending limit.

Republicans in the House Freedom Caucus support H.R. 4725, but the bill has not satisfied their concerns because they believe that the bill has no chance of enactment. Senate Democrats have sufficient votes to block Senate passage, and the President would veto the bill even if it were to reach him. However, it is doubtful that Senate Democrats and the President would agree to any legislation which would cut Federal spending in a manner that the House Freedom Caucus supports.

We will continue to keep you advised.

SAH:JJ:MR
MT:ma

c: All Department Heads
Legislative Strategist